

1100 Taxation

1103 Instructions for Preparation of Franchise Tax

5 Del.C. Ch. 11

Formerly Regulation No.: 5.1101etal.0002

Effective Date: September 11, 2001

1.0 This regulation applies to banking organizations and trust companies, other than resulting branches in this State of out-of-state banks or federal savings banks not headquartered in this state but maintaining branches in this State. The estimated and final franchise tax reports that accompany this regulation are found in regulations 1104 (formerly 5.1101etal.0003) and 1105 (formerly 5.1101etal.0004), respectively. Regulations 1106, 1107 and 1108 (formerly 5.1101etal.0005, 5.1101etal.0006 and 5.1101etal.0007) are applicable to federal savings banks not headquartered in this State but maintaining branches in this State. Regulations 1110, 1111 and 1112 (formerly 5.1101etal.0009, 5.1101etal.0010 and 5.1101etal.0011) are applicable to resulting branches in this State of out-of-state banks.

2.0 Definitions

2.1 **“Bank”** means every bank and every corporation conducting a banking business of any kind or plan whose principal place of business is in this State, except a national bank.

2.2 **“Banking organization”** means:

- A bank or bank and trust company organized and existing under the laws of this State;
- A national bank, including a federal savings bank, with its principal office in this State;
- An Edge Act corporation organized pursuant to §25(a) of the Federal Reserve Act, 12 U.S.C. §611 et seq. (an “Edge Act Corporation”), or a state chartered corporation exercising the powers granted thereunto pursuant to an agreement with the Board of Governors of the Federal Reserve System (an “Agreement Corporation”), and maintaining an office in this State;
- A federal branch or agency licensed pursuant to §4 and §5 of the International Banking Act of 1978, 12 U.S.C. §3101 et seq., to maintain an office in this State;
- A foreign bank branch, foreign bank limited purpose branch or foreign bank agency organized pursuant to Chapter 14 of Title 5, or a resulting branch in this State of a foreign bank authorized pursuant to Chapter 14 of Title 5; or
- A resulting branch in this State of an out-of-state bank, or a branch office in this State of an out-of-state bank.

2.3 **“International Banking Transaction”** shall mean any of the following transactions, whether engaged in by a banking organization, any foreign branch thereof (established pursuant to 5 Del.C. §771 or federal law) or any subsidiary corporation directly or indirectly owned by any banking organization:

- The financing of the exportation from, or the importation into, the United States or between jurisdictions abroad of tangible property or services;
- The financing of the production, preparation, storage or transportation of tangible personal property or services which are identifiable as being directly and solely for export from, or import into, the United States or between jurisdictions abroad;
- The financing of contracts, projects or activities to be performed substantially abroad, except those transactions secured by a mortgage, deed of trust or other lien upon real property located in this State;
- The receipt of deposits or borrowings or the extensions of credit by an international banking facility, except the loan or deposit of funds secured by mortgage, deed of trust or other lien upon real property located in this State;
- The underwriting, distributing and dealing in debt and equity securities outside of the United States and the conduct of any activities permissible to an Edge Act Corporation or an Agreement Corporation described above, or any of its subsidiaries, in connection with the transaction of banking or other financial operations; or

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- The entering into foreign exchange trading or hedging transactions in connection with the activities described in paragraphs (1) through (5) above.
- 2.4 **“International Banking Facility”** means a set of asset and liability accounts, segregated on the books of a banking organization, that includes only international banking facility deposits, borrowings and extensions of credit.
- 2.5 **“National Bank”** means a banking association organized under the authority of the United States and having a principal place of business in this State.
- 2.6 **“Net Operating Income Before Taxes”** means the total net interest income plus total non-interest income, minus provision for loan and lease losses, provision for allocated transfer risk, and total non-interest expense, and adjustments made for securities gains or losses and other appropriate adjustments.
- 2.7 **“Out-of-State Bank”** has the same meaning as in §795 of Title 5 of the **Delaware Code**, which is (i) a State bank, as defined in the Federal Deposit Insurance Act, as amended, at 12 U.S.C. §1813(a), that is not chartered under Delaware law, or (ii) a national bank association created under the National Bank Act (12 U.S.C. §21 et seq.) whose organization certificate identifies an address outside Delaware as the place at which its discount and deposit operations are to be carried out.
- 2.8 **“Resulting Branch In This State Of An Out-of-State Bank”** has the same meaning as in §1101(a) of Title 5 of the **Delaware Code**, which is a branch office in this State of an out-of-state bank resulting from a merger as provided in Subchapter VII of Chapter 7 of Title 5 of the **Delaware Code**, and, in addition, a branch office in this State of an out-of-state bank.
- 2.9 **“Securities Business”** means to engage in the sale, distribution and underwriting of, and deal in, stocks, bonds, debentures, notes or other securities.
- 2.10 **“Trust Company”** means a trust company or corporation doing a trust company business which has a principal place of business in this State.

3.0 Estimated Franchise Tax

- 3.1 A banking organization or trust company whose franchise tax liability for the current year is estimated to exceed \$10,000 shall file an estimated franchise tax report with the State Bank Commissioner and pay estimated franchise tax:
 - 3.1.1 Filing. The estimated franchise tax report shall be filed with the State Bank Commissioner on the first day of March of the current year.
 - 3.1.2 Penalty for late filing. A late filing penalty shall be assessed against the taxpayer in the amount of \$25 for each day after the due date that the taxpayer fails to file the estimated franchise tax report required above in section 3.1.1, unless the State Bank Commissioner is satisfied that such failure was not willful.
 - 3.1.3 Form. The estimated franchise tax report shall be in the form set out in Regulation 1104 (formerly No. 5.1101etal.0003);
 - 3.1.4 Calculation of estimated tax. The total estimated annual franchise tax shall be calculated as follows:
 - 3.1.4.1 The estimated net operating income before taxes, which includes the income of any corporation making an election as provided in Regulation No. 1101 (formerly 5.1101(f).0001);
 - 3.1.4.2 Adjusted for any estimated income from an insurance division or subsidiary;
 - 3.1.4.3 Less any deductions set forth in 5 **Del.C.** §1101;
 - 3.1.4.4 Multiplied by .56 to arrive at estimated taxable income;
 - 3.1.4.5 The appropriate rate of taxation set forth in 5 **Del.C.** §1105 shall be applied;
 - 3.1.4.6 The subtotal estimated annual franchise tax shall be adjusted for tax credits applicable pursuant to 5 **Del.C.** §1105, which are calculated in accordance with Regulation No. 1109 (formerly 5.1105.0008).

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- 3.1.4.7 The subtotal estimated annual franchise tax shall be adjusted for Travelink tax credits calculated in accordance with Department of Transportation Travelink tax credit reporting requirements.
- 3.1.4.8 The subtotal estimated annual franchise tax shall be adjusted for Historic Preservation Tax Credits calculated in accordance with 30 **Del.C.** §§1811 et seq. and the regulations thereunder. Claimed credits must be accompanied by a Certificate of Completion issued by the Delaware State Historic Preservation Office certifying that the credits have been properly earned, in accordance with 5 **Del.C.** §1105(g). If the credits have been transferred, sold or assigned to the taxpayer by another person, a Certificate of Transfer must also be attached, in accordance with 30 **Del.C.** §1814(c).
- 3.1.5 Payment of estimated tax. The estimated tax liability shall be due and payable as follows:
 - 3.1.5.1 40% due on or before June 1 of the current taxable year;
 - 3.1.5.2 20% due on or before September 1 of the current taxable year;
 - 3.1.5.3 20% due on or before December 1 of the current taxable year.

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4.0 Final Franchise Tax

- 4.1 Filing. The December 31 call report, verified by oath, setting forth the net operating income of the banking organization and the final franchise tax report, setting forth the "taxable income" of the banking organization or trust company, shall be filed with the Office of the State Bank Commissioner on or before January 30 each year; provided, however, that a banking organization entitled to take an additional 15 days to submit its Report of Condition and Income to the appropriate federal bank supervisory authority shall file the December 31 call report and the final franchise tax report with the Office of the State Bank Commissioner on or before February 15 of each year, except as otherwise required by 5 **Del.C.** §904.
- 4.2 Penalty for late filing. A late filing penalty shall be assessed against the taxpayer in the amount of \$25 for each day after the due date that the taxpayer fails to file the final franchise tax report required above in subsection 4.1, unless the State Bank Commissioner is satisfied that such failure was not willful.
- 4.3 Form. The final franchise tax report shall be in the form set out in Regulation No. 1105 (formerly 5.1101etal.0004).
- 4.4 Calculation of final tax. The total final franchise tax shall be calculated as follows:
 - 4.4.1 The net operating income before taxes, which includes the income of any corporation making an election as provided in Regulation No. 1101 (formerly 5.1101(f).0001);
 - 4.4.2 Adjusted for any income from an insurance division or subsidiary; (include a report of income showing the name and federal employer identification number of the division or subsidiary)
 - 4.4.3 Less any deduction set forth in 5 **Del.C.** §1101; (include a report of income showing the name and federal employer identification number of each subsidiary taken as a deduction)
 - 4.4.4 Multiplied by .56 to arrive at "taxable income";
 - 4.4.5 The appropriate rate of taxation set forth in 5 **Del.C.** §1105 shall be applied to the taxable income to arrive at subtotal annual franchise tax;
 - 4.4.6 The subtotal annual franchise tax shall be adjusted for tax credits applicable pursuant to 5 **Del.C.** §1105, which are calculated in accordance with Regulation No. 1109 (formerly 5.1105.0008).
 - 4.4.7 The subtotal annual franchise tax shall be adjusted for Travelink tax credits calculated in accordance with Department of Transportation Travelink tax credit reporting requirements.
 - 4.4.8 The subtotal estimated annual franchise tax shall be adjusted for Historic Preservation Tax Credits calculated in accordance with 30 **Del.C.** §§1811 et seq. and the regulations thereunder. Claimed credits must be accompanied by a Certificate of Completion issued by the Delaware State Historic Preservation Office certifying that the credits have been properly earned, in accordance with 5 **Del.C.** §1105(g). If the credits have been

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transferred, sold or assigned to the taxpayer by another person, a Certificate of Transfer must also be attached, in accordance with 30 Del.C. §1814(c).

5 DE Reg. 647 (09/01/01)**5.0 Payment of Final Franchise Tax**

- 5.1 Taxes owed for the previous calendar year are due and payable on or before March 1 of the following year. Checks or other forms of payment should be made payable or directed to the State of Delaware.
- 5.2 The amount due and payable on or before March 1 for the previous calendar year shall be the final franchise tax, less any estimated tax payments made for the taxable year, plus any additional tax due to underpayment of estimated franchise tax or installment. If the final franchise tax is not paid by March 1, a penalty for late payment of the final franchise tax shall be assessed.

6.0 Additional Tax Due to Underpayment of Estimated Franchise Tax or Installment

- 6.1 In the case of any underpayment of estimated franchise tax or installment of estimated tax required by Chapter 11 of Title 5 of the **Delaware Code**, there shall be added to the tax for the taxable year an amount determined at the rate of 0.05 percent per day upon the amount of the underpayment for the period of the underpayment. The amount of the underpayment shall be the excess of:
 - 6.1.1 The amount of the estimated franchise tax or installment payment which would be required to be made if the estimated tax were equal to 80 percent of the tax shown on the final return for the taxable year, or if no return were filed, 80 percent of the tax for such year, over;
 - 6.1.2 The amount, if any, of the estimated tax or installment paid on or before the last date prescribed for payment.
- 6.2 The period of the underpayment shall run from the date the estimated franchise tax or installment was required to be paid to the earlier of the date when such estimated tax or installment is paid or the date of the final payment of tax for the year;
- 6.3 Notwithstanding the above, the addition to the tax with respect to any underpayment of estimated franchise tax or any installment shall not be imposed if the total amount of all payments of estimated tax made on or before the last date prescribed for the payment thereof equals or exceeds the amount which would have been required to be paid on or before such date if the estimated tax were the tax shown on the final return of the banking organization or trust company for the preceding taxable year.

7.0 Penalty - Late Payment of Final Franchise Tax

- 7.1 In the case of a late payment of final franchise tax as required by Chapter 11 of Title 5 of the **Delaware Code**, there shall be added to the tax a penalty in an amount determined at the rate of 0.05 percent per day until required payment is made.

8.0 Election to be listed as a "Subsidiary Corporation"

- 8.1 Any corporation which has elected to be treated as a "subsidiary corporation" of a banking organization or trust company pursuant to §1101(f) and filed with the State Bank Commissioner the required election form in accordance with Commissioner's Regulation No. 1101 (formerly 5.1101(f).0001) shall provide (a) a tentative report of income for the electing corporation covering estimated bank franchise tax liability for the current income year to be submitted in conjunction with the estimated franchise tax report due March 1 for a banking organization or trust company whose franchise tax liability for the current year is estimated to exceed \$10,000, and (b) a report of income for the electing corporation as of December 31 of

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- each year to be submitted in conjunction with the final franchise tax report due January 30 or February 15, as applicable.
- 8.2 As long as the election remains in effect, the ownership and employment tests must be met. Therefore, the election form in Regulation No. 1101 (formerly Regulation 5.1101(f).0001) must be completed each year for each Electing Corporation and submitted with the final franchise tax report.

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